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ASX/Media Release

Ausenco reports half year net profit after tax of $2.0 million

Ausenco Limited (ASX: AAX) today reported a net profit after tax of $2.0 million for the half year to 30 June 2014, down $1.5 million on the previous corresponding period.

Financial summary:

- Revenue from operations $184.2 million
- Underlying EBITDA $4.7 million; underlying EBITDA margin 2.5%
- Net debt $31 million, net gearing ratio of 10.8%; excludes $14 million cash collected early July
- $36 million of overhead cost savings providing more efficient and streamlined cost base
- Oil and gas diversification, successfully delivering $2.0 million underlying EBITDA and 11% of group revenues

Operational summary:

- Market conditions stabilising; undecided or delayed decisions impacting resource planning
- Extensive, diverse pipeline of opportunities across all business lines; focus on growing market share
- Existing services expertise, global portfolio and market differentiators underpin organic growth targets and expansion in four key markets:
  - Oil and Gas in Canada, delivering value in clients' sustaining capital programs
  - Optimise services globally, lowering owner operating costs and enhancing earnings
  - Infrastructure in North America, focusing on LNG ports and terminals and municipal infrastructure, pipelines and power
  - Copper in Chile and Peru, with lower capital intensity solutions improving project internal rates of return (IRR).

Six months ended 30 June $m	2014	2013	
Revenue from operations	184.2	258.9	↓
Underlying EBITDA	4.7	21.8	↓
Underlying EBITDA margin (%)	2.5%	8.4%	↓
Net profit/(loss) before tax	(2.7)	4.7	↓
Attributable profit after tax	2.0	3.5	↓
Underlying earnings	2.0	11.1	↓
Basic earnings per share (cents)	1.2	2.8	↓
Net operating cash flow/(outflow)	(7.5)	19.6	↓
Underlying EBITDA interest coverage	2.3	12.5	↓
Dividend per share (cents)	-	2.0	↓

Attributable earnings and underlying earnings relate to profit attributable to shareholders of Ausenco.
Underlying EBITDA is defined and reconciled to reported earnings on page 26 of the 2014 interim half-year financial report
EBITDA represents profit before tax, net finance items, depreciation and amortisation.
Underlying earnings excludes the same items, in after-tax terms, as are excluded from underlying EBITDA.

Ausenco CEO Zimi Meka said, while market conditions remained soft, they had stabilised during the period, particularly in key markets in the Americas, and the company's global business footprint was providing a solid platform for growth.

"We have seen a return to more normal market conditions and our strategic presence across key markets, coupled with our track record for delivering value adding solutions for our clients, is creating a solid pipeline of opportunities to increase market share and grow revenue and earnings," Mr Meka said.

"In particular, ongoing brownfield and sustaining capital programs provide ample opportunities for Ausenco to expand by leveraging our existing strengths and capabilities in this area.

"First half revenue was marginally below our expectations which was attributable to a few offices that experienced delays with the timing of anticipated new assignments.

"Despite these challenges, all businesses were profitable during the period and our intensive focus on managing costs has resulted in a more efficient cost base which positions the business for leveraged earnings growth from the expected improvement in revenues through 2015 and into 2016."

Extensive and diverse pipeline of opportunities

Mr Meka said Ausenco's opportunities were being driven by the company's diversification across key markets and geographies.

"Our pipeline of identified revenue opportunities is high by historical standards. Importantly, we are already working on various assignments for a number of these opportunities," he said.

"In addition to many resource market opportunities, we are focused on gaining market share in specific markets where we have a strong footprint and expect a high demand for our services over the short to medium term including:

- Sustaining capital programs across the oil & gas sector in Canada
- Infrastructure (ports and terminals, municipal, pipelines, and power) expansions across North America
- Copper projects in Peru and Chile, particularly with the expected trend towards large copper concentrators, and
- Asset optimisation programs globally to improve owners' asset performance and lower operating costs.

"We are well positioned in all of these markets to convert the opportunities; however timing of decisions by owners is still difficult to anticipate.

"Consistent with our history, I expect our Australian revenues will continue to represent less than 15% of group revenues."

Committed to restoring shareholder value

Mr Meka said Ausenco's Board and management were resolutely committed to restoring shareholder value.

"We have completed major internal integration and alignment activities over the past few years and are ideally positioned to fully benefit from earnings growth as revenue volumes increase. In addition, we have delivered $36 million in annual cost savings and efficiency improvements against an initial target of $20 million.

“We remain focused on maximising total shareholder returns through optimal capital management initiatives. This is a particular focus at times when the market capitalisation of the group does not fully reflect the group’s underlying value.”

Uniquely positioned

This year Ausenco was recognised as one of the top 50 global design firms by the respected Engineering News-Record which annually ranks the largest contractors and design firms in the U.S. and internationally.

“In achieving this ranking, our global diversification platform, compared to our peer group, stood out. It provides Ausenco with a head start on local peers in taking advantage of international growth markets,” Mr Meka said.

“It was interesting to note that only two other ASX listed engineering and construction companies operate on a similar global scale and as a result we are well positioned to take advantage of growing markets and economies outside of Australia.”

Capital Management

Discussions with Ausenco’s financiers are progressing positively with respect to the expected extension of debt repayments due in November 2014.

Net operating cash flow for the first half was an outflow of $7.5 million, excluding $14 million in pre 30 June receipts not received until the first week of July. Following a two year period of unusually high capital expenditure in rolling out a global ERP platform and carrying out a number of office integrations, capital expenditure is likely to average $2.5 million annually over the next three years.

Ausenco’s gross cash position at 30 June 2014 was $24.1 million. The group’s gross borrowings reduced to $55.1 million at 30 June 2014 following $4.4 million of scheduled repayments. Net debt at 30 June 2014 was $31 million (up $6.3 million from 31 December 2013) resulting in a net gearing ratio of 10.8%.

Safety and Sustainability

Ausenco’s Lost Time Injury Frequency Rate for the 12 months to 30 June 2014 was 0.27 per million hours worked (2013: 0.27) and the Total Recordable Injury Frequency Rate (TRIFR) was 3.37 per million hours worked (2013: 3.30).

Ausenco managed a total of 18.7 million man-hours during the period and achieved a number of safety milestones including working on eight projects which together recorded over 12.8 million man-hours LTI free.

During the period we refined our attention on sustainability with the development and rollout of a Sustainability Policy and Framework focusing across six key areas in the way we operate – Design and Delivery; People; Health, Safety and Wellbeing; Environment; Community; and Governance and Assurance.

Through the efforts of our people and funding from the Ausenco Foundation we continued to give back to communities where we live and work through numerous initiatives across 10 disadvantaged communities in India, Papua New Guinea, Australia, Canada and Kenya.

OUTLOOK

In the short term, the persistently strong Australian dollar, client challenges in securing environmental, mining or social licences to operate, events like the Ebola outbreak in West Africa and general timing delays have provided a headwind to the anticipated start of a number of opportunities originally expected for the third quarter of 2014.

Delivering annual cost savings of $36 million has enhanced the earnings position of the business against lower revenue outcomes. Current 2014 market consensus is for a net profit after tax of $8.5 million. Against this market background, it is anticipated that the 2014 net profit after tax will be between $3.5 and $7.8 million based on 2014 full year revenues between $370 to $395 million, with EBITDA between $13 and $19 million.

Mr Meka said while market conditions had stabilised, the balance of new award timings and resource planning remain the key challenges.

“We remain confident of our underlying growth prospects and believe our comprehensive service offering, revenue base and risk profile will deliver restored shareholder value as we grow market share” he said.

“Clients are acutely focused on reducing new project capital intensity and optimising the operating efficiency and costs of their plants. This focus plays to our strengths and is expected to drive revenue growth.”

The cost base reduction of $36 million per year and has materially benefitted the leverage of Group earnings to revenue. Whilst not seeking to provide guidance on 2015 revenues or earnings, the current analyst consensus earnings for 2015 is net profit after tax of $14.2 million from revenues of $475 million. On the basis of no significant macro-economic changes and due to the enhanced earnings leverage, Ausenco is now capable of delivering those earnings on annual revenues in the range of $400 to $410 million.

ENDS

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About Ausenco

Ausenco is a global, diversified engineering and project management company providing services in Minerals & Metals, Process Infrastructure, Environment & Sustainability and Oil & Gas. We deliver new and better ways to add value to our clients’ projects no matter how demanding and we deliver results in some of the world’s most challenging environments. Listed on the ASX in 2006, our growth strategy is focused on sector, solution and geographic expansion. We operate from 29 offices in 17 countries.